Jonathan W. Peters
Finance Committee Chair

Franklin Chu
City Council Liaison

Michael A. Genito
City Staff Liaison

Michael Caponiti
Frederic Dunn
Norman MacMaster

David M. Mullane
George Pratt
Sal Samperi

CITY OF RYE FINANCE COMMITTEE MEMORANDUM

Date: December 6, 2005
To: O. Paul Shew, City Manager
From: Jono Peters, Chair
Re: Revised Proposal - Real Estate Transfer Tax Legislation
Councilman Seitz's Memorandum dated November 17, 2005 (copy attached)

At the Finance Committee meeting of December 5, 2005, the Committee discussed the merits of a revised proposal for a real estate transfer tax per the memo of Councilman Seitz dated November 17, 2005.

The Committee concluded that the proposal was conceptually interesting but requires further research, including the advice and consultation of the City Comptroller and Corporation Counsel.

The Committee would be pleased to further research the issue, provided that it is authorized to work with the City Comptroller and Corporation Counsel on the matter.

Please advise if you would like us to proceed in this endeavor, and if so, authorize our access to the City Comptroller and Corporation Counsel as resources.

Respectfully submitted,

The City of Rye Finance Committee

MEMORANDUM

To: City Council

From: Howard G. Seitz

Date: November 17, 2005

Subject: Transfer Tax

In accordance with my comments at our November 9 meeting, I enclose an additional copy of my memo of June 24.

I would amend this proposal substantively only in two regards; first, to pick up the concept that the ten year period is satisfied if one has been a Rye homeowner for the entire ten year period, i.e. if one has moved, he may tack the periods of ownership of successive homes together to fulfill the 10 year requirement and, second, proceeds must be used for infrastructure (broadly defined) and acquisition of land.

Accordingly, the paragraph "Proposal" on page 3 is modified to read in its entirety as follows:

"Proposal. My proposal is simple. Impose a tax on all sales of real property in Rye for a purchase price of more than $750,000 at the rate of 5% if property is transferred within one year after acquisition (other than by bequest), 4.5% during the second year decreasing at the rate of .5% a year so that, after year 10, no tax would be payable. For purposes hereof, a seller of property will be able to tack consecutive periods of ownership, e.g. if one sells his house after five years and purchases another house in Rye, substantially contemporaneously, no tax will be due unless that individual sells the second house within five years after the first sale and fails to reinvest in Rye.
These tax receipts would then be able to be used only for infrastructure purposes (broadly defined to include debt service on moneys borrowed for infrastructure purposes) and real property acquisitions."

Example, Danny the Developer buys a home for $1,00,000, tears it down, rebuilds and two years later, sells it for $4,000,000. Tax owed would be $160,000."

How would this affect the Rye taxpayer?

56% of Rye homeowners have owned their current homes for 10 years or more.

It seems reasonable to assume that some significant portion of the remaining 44% have either relocated in Rye within such 10 year period or, if they do move, will relocate in Rye or have homes which, if sold, would sell for less than $750,000.

In the first nine months of 2005, 114 homes sold for an average price of $1,740,000 including one for $6,600,000 and one for $10,600,000. Extrapolating to a full year would result in sales of 152 houses. If we assume (a) only 15 of these homes would have been affected by the transfer tax, (b) the 15 traded at the average, and (c) the owners had held them for 5 years and did not reinvest in Rye, proceeds would have been $696,000.

If the two outliers (the $10,600,000 and the $6,600,000 transactions) were held for two years and their sellers did not reinvest in Rye, proceeds would have been $688,000 from these two transactions only.

It's obvious the moneys are significant.

What do we do with it?

We have deferred maintenance and additional obligations mandated b y the federal and state government in unknown amounts which, I believe, will prove to be significant.

In addition, I believe we have been hurt by our failure to plan not for the proverbial rainy day but the once in a lifetime opportunity, e.g. Durland and CVS.

This type of opportunity will occur again and we should be prepared.

For example, these moneys could be used to fund the purchase of the Rye Arcade when it comes up for sale.

I believe the Arcade is part of the village green and, if possible, the City should consider buying it, making its apartments available as affordable housing to City employees and its stores, at below market rents, to those types of retail which the City wishes to encourage to maintain the ambience of the Central Business District.

To do these things, we need new sources of revenue and must think outside the box for these new sources.

H.G.S.